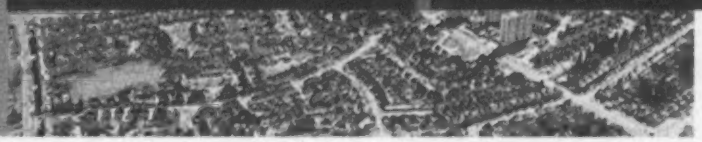
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Kingston CMA



Canada Mortgage and Housing Corporation

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New Home Market

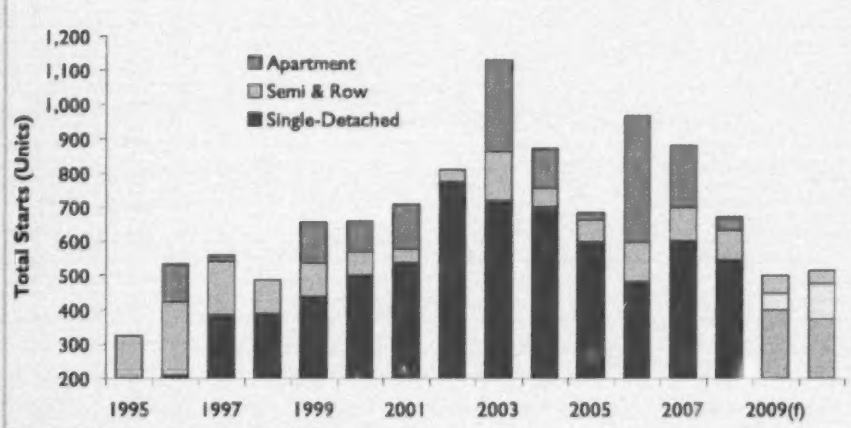
Housing Starts to Moderate in 2009

Construction activity in 2009 will moderate to 500 starts amid concerns about the economic and job market conditions in Kingston. In addition to the decline in consumer spending on big-ticket items like housing, an increase in new-listings from the existing home market provides more choice for potential home buyers which in turn reduce the spill-over demand into the new home market. In 2010, however, as the economy begins to stabilize, housing starts are expected to increase.

In 2009, single-detached starts are forecast to decline 27 per cent to 400 units. Semi-detached and rows will drop to 20 units and 30 units respec-

Figure 1

Housing Starts Will Moderate in 2009



Source: CMHC (Starts Survey); f = CMHC Forecast

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tively, while apartment construction will increase from 37 units in 2008 to 50 units this year. Pent up demand for housing in recent years has eroded, and consequently new home construction will gradually move toward levels that are consistent with changes in household formation.

Apartment Starts to Pick Up in 2009

In reaction to the tight rental market conditions in 2008, new apartment starts are expected to rise this year before retreating next year – as some first time home buyers will begin to make the transition from rental accommodation into home ownership. The current economic uncertainty has prompted some potential home buyers to remain on the sideline which translates into living in a rental unit for an extended period.

Generally, during economic downturns, some potential first time home buyers tend to encounter financial difficulties which in turn prevent them (at least in the short-run) from qualifying for homeownership. This and other psychological reasons point in favour of rental accommodation – which will reduce vacancy rates and then help support apartment starts in 2009.

Resale Market

Existing Home Sales Will Return to 2001 Level

At 561 units, existing home sales in the first quarter of 2009 were 14 per cent weaker than the corresponding period a year ago. Therefore, look for sales to moderate in 2009. Weakness will be tied to slow job and income growth, sluggish consumer spending, and negative net migration. These negatives will outweigh the positive effect of historically low mortgage rates this year. More specifically, sales will decline by approximately eight per cent, representing 3,200 transactions for the year – a return to 2001 level with 3,274 units sold. Next year, however, as the economy recovers and potential home buyers regain market confidence sales are projected to increase from the 2009 forecast level.

Nonetheless, housing affordability conditions have improved dramatically. With the historically low mortgage rates and slow home price growth, mortgage carrying costs have dropped significantly. As a consequence of the rising home affordability, Kingston's housing market is anticipated to stabilize by the second half of this year. Given the fact that over 90 per cent of the workforce is still employed, many potential home buyers are expected to take advantage of the first-time home buyers' tax credit which should support the demand for home ownership in late 2009 through 2010.

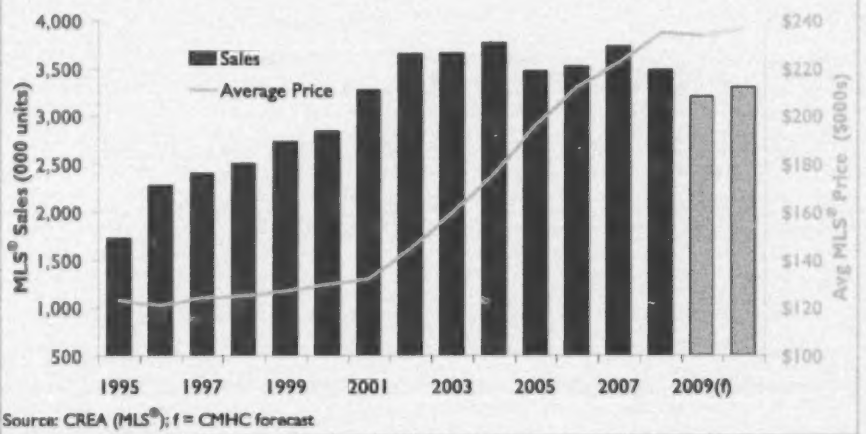
Balanced Market Conditions Prevail

One barometer of resale activity, the sales-to-new listings ratio provides a good measure of the tightness of the resale home market. All else being equal, a ratio between 35 and 55 per cent is considered balanced where neither the buyer nor seller has strong bargaining power. In 2008, this indicator averaged 48 per cent, signalling a firm balanced market condition.

During the first quarter of this year, however, the sales-to-new listings ratio dropped to 33 per cent – due in part to a substantial decline in consumer spending on big ticket items like housing. As the year progresses through the summer into the fall season, resale activity is expected to pick-up while the

Figure 2

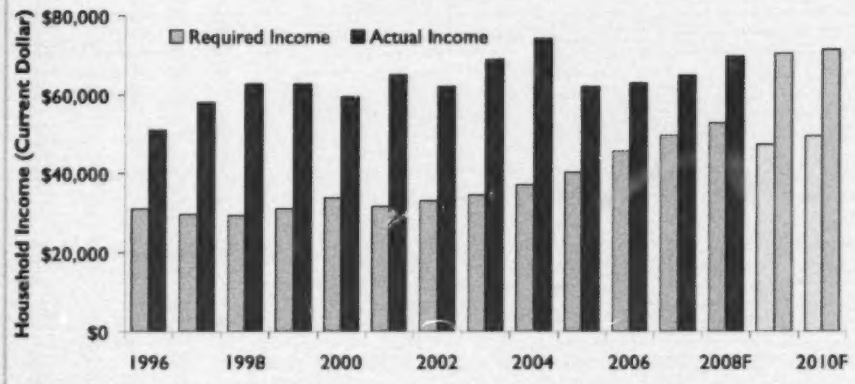
Existing Home Market Expected to Cool



Source: CREA (MLS®); f = CMHC forecast

Figure 3

Kingston Homeownership Affordability Indicator (All Households)



Sources: CMHC, Statistics Canada, CREA

number of houses available for sale will remain flat. Consequently, the ratio is projected to finish the year in the balanced territory.

Average Existing Home Price Growth to Slow This Year

As of the first quarter 2009, the existing home market in Kingston is characterized by steady demand, increasing new-listings, slow price growth and trending toward balanced conditions. Therefore, expect Kingston's average resale price growth to moderate this year before slightly edging up in 2010. More specifically, the average existing home price will decline 0.7 per cent by year-end before seeing a modest increase in 2010 upon economic recovery. This increase – as dictated by the balanced market conditions – is anticipated to be on par with the national rate of inflation.

Economy

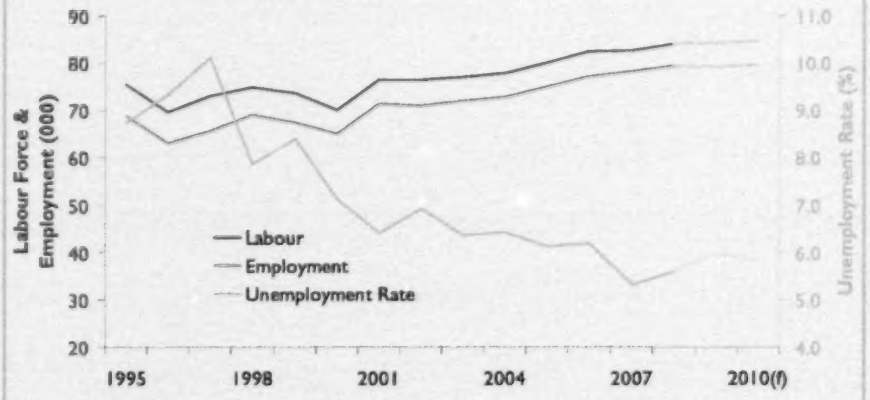
Expect Economic Recovery in 2010

Employment grew at a strong pace of 1.4 per cent in 2008 and most of the new jobs created were full time positions. With a record share of Kingstonians employed in 2008, the unemployment rate reached an average of 5.6 per cent for the year. Given the global economic slowdown, the pace of Kingston's economic growth is projected to slow this year. Therefore, employment is forecast to decline by 0.3 per cent in 2009 before increasing marginally in 2010.

Meanwhile, the unemployment rate in Kingston is expected to reach an average of 6.0 per cent by the end of this year - a rate that is still lower than the provincial and national annual average. Once the monetary and fiscal policy stimulus feed its way through the economy, the pace of job looses will slow by the second half of this year. As a result, the Kingston economy is anticipated to stabilize in late 2009 before entering a gradual recovery process through 2010.

Figure 4

Kingston's Unemployment Rate Remains Low



Source: Statistics Canada; f = CMHC Forecast

Investors Regain Confidence

There are some new projects on the pipeline in Kingston, indicating renewed investor confidence. On April 2, Scott Environmental Group (SEG) announced the opening of a multi-million dollar e-waste consolidation and collection facility that will help to create new jobs for the local economy. In addition, the SEG organic processing plant, scheduled to be completed in the summer of this year, is projected to create about 28 new jobs over two years – 18 full-time and 10 part-time positions. Similarly, another major announcement was made on March 25 by Everbrite Solar (a division of Everbrite Industries Ltd. of Toronto) to locate its photovoltaic (PV) manufacturing facility in this city. This $500 million dollar project is expected to create approximately 1,200 new jobs in the Kingston Census Metropolitan Area (CMA).

Kingston's Population Continues to Decline

Since 2005, the population of Kingston has declined by 0.5 per cent from 155,744 to 154,985 in 2007. The age group between 15 and 24 experienced the most declines – due in part to the increased unemployment rate among this age group. Youth (15-24) unemployment rate has been in the double digit range since May 2007. Currently, it is sitting at 12.9 per cent (compared with 5.5 per cent for the entire population) as of March 2009. Accordingly, young adults are leaving the Kingston Census Metropolitan Area (CMA) to settle else where in the country.

In its 2007 migration report, Statistics Canada indicated that Montreal (9.1%) and Edmonton (8.6%) were the main destinations for inter-provincial migrants from the Kingston CMA between 2001 and 2006. As a consequence, medium-term population growth in the CMA is projected to remain flat. Although CMHC expects housing starts to slightly edge up in 2010, the Kingston demographic requirements suggest that total starts will be contained at a level way below the 20-year annual average of 820 units.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Figure 5

Mortgage Rates Will Remain Low

Source: Bank of Canada

Forecast Summary Kingston CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	3,517	3,725	3,473	3,200	-7.9	3,300	3.1
MLS® New Listings	6,314	6,716	7,281	7,000	-3.9	6,950	-0.7
MLS® Average Price ($)	212,157	222,300	235,047	233,500	-0.7	237,000	1.5
New Home Market							
Starts:							
Single-Detached	481	600	546	400	-26.7	375	-6.3
Multiples	487	280	126	100	-20.6	140	40.0
Starts - Total	968	880	672	500	-25.6	515	3.0
Average Price ($):							
Single-Detached	274,964	266,145	258,693	-	-	-	-
Median Price ($):							
Single-Detached	274,000	260,000	254,900	-	-	-	-
Rental Market							
October Vacancy Rate (%)	2.1	3.2	1.3	1.2	-0.1	1.9	0.7
Two-bedroom Average Rent (October) ($)	841	856	880	905	2.8	928	2.5
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	77,300	78,300	79,400	79,200	-0.3	79,700	0.6
Employment Growth (%)	2.9	1.3	1.4	-0.3	-	0.6	-
Unemployment rate (%)	6.2	5.3	5.6	6.0	0.4	5.8	-0.2
Net Migration [1]	-715	0	0	-529	-	-558	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 and 2008 migration numbers are forecasts

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